

**VOLUME 1, CHAPTER 2: “FEDERAL ACCOUNTING STANDARDS
HIERARCHY”****SUMMARY OF MAJOR CHANGES**

All changes are denoted by *blue font*.

Substantive revisions are denoted by an * symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by ***bold, italic, blue and underlined font***.

The previous version dated January 2011 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Table of Contents	Expanded.	Update
020201	Updated guidance to indicate that Accounting and Finance Policy is the primary contact on guidance and clarification of FASAB matters within DoD.	Update
020202	Updated guidance to indicate that correspondence presenting a DoD position on FASAB matters will be signed by either the CFO or DCFO.	Update
020203	Updated guidance to ensure DoD representation on FASAB Task Forces.	Update

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CHAPTER 2

FEDERAL ACCOUNTING STANDARDS HIERARCHY

0201 GENERAL

020101. Purpose

A. This chapter includes the Federal Accounting Standards Advisory Board (FASAB) hierarchy of accounting principles and standards. [These standards](#) are used to promulgate DoD accounting and financial reporting policy within the [Department of Defense \(DoD\) *Financial Management Regulation* \(FMR\)](#). The purpose of these principles and standards is to improve the usefulness of federal financial reports.

B. The provisions of this chapter apply to all DoD Components, including the Defense Working Capital Fund activities. However, this chapter does not apply to Nonappropriated Fund (NAF) accounting. NAF accounting policies are in [Volume 13](#).

C. Interim policies and guidance issued by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) through various memoranda can be found on the OUSD(C) [DoD FMR](#) website above each related volume. Such interim guidance will be incorporated into the DoD FMR once it is finalized.

020102. Overview

A. To comply with the [Chief Financial Officers \(CFO\) Act of 1990](#), as amended, federal financial managers, accountants and auditors need to apply appropriate accounting principles and standards. These concepts and standards result from the due process of [FASAB](#). FASAB was established in October 1990 by the Director of the Office of Management and Budget (OMB); the Secretary of the Treasury; and the Comptroller General, Government Accountability Office (GAO) to consider and recommend accounting principles for the Federal Government.

B. In 1999, the American Institute of Certified Public Accountants' (AICPA) Council designated the FASAB as the accounting standards-setting body for Federal Government entities under [Rule 203](#) of the AICPA's Code of Professional Conduct. The AICPA had previously designated the FASB as the standards-setter for the private sector in 1973 and the Governmental Accounting Standards Board (GASB) as the standards-setter for states and local governments in 1986. Until the AICPA action, the Federal Government did not have a Rule 203 designated accounting standards setter. With this designation, Federal Government reporting entities are able to obtain audit opinions that indicate that the financial statements are presented in conformity with GAAP rather than an "other comprehensive basis of accounting." See also the American Institute of Certified Public Accountants (AICPA) Statement of Auditing Standards #91, *Federal GAAP Hierarchy* (codified at [AU sec. 411.14-.15, and .18](#)).

C. In July 2009, FASAB joined with GASB and published the [Statement of Federal Financial Accounting Standard \(SFFAS\) 34](#), *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This document identifies the GAAP hierarchy for federal reporting entities.

D. The FASAB develops accounting standards taking into consideration the financial and budgetary information needs of the Congress, executive agencies, other users of federal financial information and comments from the public. The FASAB then exposes the proposed standard for public comment. The Board considers comments and then decides whether to adopt the standard with or without modification. After the Board concludes its deliberations on a proposed statement, they submit it to the sponsors who have 90 days to review the statement. If neither the Director of the Office of Management and Budget nor the Comptroller General object, the statement is published by FASAB and becomes GAAP for federal financial reporting entities.

E. When the FASAB adopts recommended statements, they are published as [Statements of Federal Financial Accounting Standards](#). These SFFASs are the body of standards that are the GAAP for Federal Government entities.

F. A codification of [FASAB Standards](#) and other FASAB authoritative publications including FASAB Interpretations, Technical Bulletins, and Technical Releases is located at <http://www.fasab.gov/codifica.html>. Documents recently issued and not yet codified are also presented at this location.

020103. [Hierarchy of Accounting Standards](#)

A. The SFFASs are GAAP applicable to the Federal Government and shall be followed by all federal agencies, in reporting under the [Government Management Reform Act of 1994](#). DoD Components shall adhere to the GAAP hierarchy prescribed in [SFFAS 34](#). The sources of accounting principles that are generally accepted are categorized in descending order of authority as follows:

1. FASAB SFFAS and Interpretations.
2. FASAB Technical Bulletins and, if specifically made applicable to federal reporting entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides. Such pronouncements specifically made applicable to federal reporting entities are presumed to have been cleared by the FASAB, unless the pronouncement indicates otherwise.
3. Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.
4. Implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the Federal Government.

B. If the accounting treatment for a transaction or event is not specified by a pronouncement or established in practice as described in subparagraph 020103.A, a federal reporting entity should [first](#) consider accounting principles for similar transactions or events within categories in subparagraphs 020103.A before considering Other Accounting Literature discussed in paragraph [020104](#).

C. A federal reporting entity should not follow the accounting treatment specified in accounting principles for similar transactions or events in cases in which those accounting principles either (a) specifically prohibit the application of the accounting treatment to the particular transaction or event or (b) indicate that the accounting treatment should not be applied to other transactions or events by analogy.

020104. Other Pronouncements and Practices

A. Other Accounting Literature includes:

1. FASAB Concepts Statements;
 2. [AICPA Industry Audit and Accounting Guides that have not specifically been made applicable to federal reporting entities by the FASAB;](#)
 3. Pronouncements of other accounting and financial reporting standards-setting bodies, such as FASB, GASB, the International Accounting Standards Board, and the International Public Sector Accounting Standards Board;
 4. [Publications of](#) professional associations or regulatory agencies;
- and
5. [Accounting textbooks, handbooks, and articles.](#)

B. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. FASAB Concepts Statements would normally be more influential than other sources in this category.

0202 COMMUNICATION AND COORDINATION

* 020201. Guidance and Clarification

To ensure the consistent application of SFFAS throughout DoD, the [Office of the Deputy Chief Financial Officer \(DCFO\)](#), Directorate for Accounting and Finance Policy, OUSD(C) shall be contacted when clarification, technical guidance, implementation guidance or other information regarding [federal accounting standards](#) is needed.

* 020202. Correspondence

A. Formal and informal requests addressed to the FASAB or the Accounting and Auditing Policy Committee for an interpretation, clarification, technical guidance, implementation guidance or other information regarding SFFAS shall be submitted through the Office of the DCFO, Directorate for Accounting and Finance Policy (A&FP), OUSD(C).

B. All correspondence presenting a DoD position on FASAB Exposure Drafts and on any other matters before FASAB or the AAPC will be signed by either the DoD Chief Financial Officer or DoD DCFO.

C. Individuals submitting responses to Exposure Drafts will clearly indicate in the correspondence that the opinions expressed are those of the individual and do not represent the official position of DoD.

* 020203. Task Force Participation

A. Full participation by DoD in Task Forces sponsored by FASAB and the AAPC is critical to ensuring that DoD's views are considered as accounting standards and guidance are formulated. This participation includes meeting attendance, participation in group discussions, preparing draft documents and commenting on draft Task Force documents.

B. To ensure complete coverage by DoD, Task Force participants should notify the Office of the DCFO, A&FP, OUSD(C) of participation in FASAB and AAPC Task Forces. Task Force participants should also remain alert to the fact that many issues will impact multiple DoD Components and coordinate with A&FP and other DoD Components to ensure that DoD is properly represented.